

# Porirua City Council

Closing Report  
30 June 2017

11 September 2017

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## Dear Committee members

We have substantially completed our audit of the financial statements and service performance information for Porirua City Council ("Council") for the year ended 30 June 2017.

Subject to the resolution of the outstanding matters noted in this report, we will issue an unmodified audit report.

We have provided this report in our role as the appointed auditor of Council on behalf of the Auditor-General in accordance with the Public Audit Act 2001. This report is intended solely for the use of the Audit and Risk Committee ("the Committee"), other members of Council and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your staff for the assistance provided to us during the engagement.

I look forward to the opportunity of discussing with you any aspects of this report or any other issues arising from our work.

If you have any queries in the meantime, please feel free to contact me on 0274 899 410 or at [grant.taylor@nz.ey.com](mailto:grant.taylor@nz.ey.com).

Yours faithfully



Grant Taylor  
Partner

# Executive summary

Scope of the audit	<p>We carried out the audit in accordance with our Audit Plan, the Office of the Auditor-General's (OAG) Auditing Standards, which incorporate the International Auditing Standards (New Zealand) and the OAG's 2017 sector brief to provide reasonable assurance that the Annual Report is free of material misstatement.</p>	
Status of the audit	<p>We have largely completed our audit procedures and have provided feedback to management with regards to the draft financial statements and service performance information. We will complete our final audit procedures prior to our meeting with the Committee on 11 September 2017. We will update the Committee at that time.</p> <p>Subject to the completion of the procedural matters outlined in Appendix B we anticipate issuing an unmodified audit opinion (refer Appendix C).</p> <p>Ernst &amp; Young's independence has been confirmed by all members of our team and an Independence Declaration has been included in this report (refer Appendix A).</p>	<p>There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Committee.</p> <p>We identified a small number of observations and recommendations in relation to management's financial processes and controls. We will issue a management report to Council following issuance of our report. We have not identified any control weaknesses that represent significant deficiencies in internal controls or internal control matters of a 'critical' or 'high' risk nature.</p> <p>It is pleasing to report that the historic matters we have raised regarding PCC's IT control environment have been addressed during FY17.</p>
Areas of audit focus	<p>In our Audit Plan we identified a number of areas of focus. Pages 4 – 9 of this report set out our perspective in relation to each of these areas.</p> <p>We request you review these and other audit and accounting matters set out in this report to ensure:</p> <ul style="list-style-type: none"> <li>• There are no further considerations or matters that could impact these issues;</li> <li>• You concur with the resolution of the issues raised; and</li> <li>• There are no further significant issues you are aware of to be considered before the Annual Report is finalised.</li> </ul>	<p><b>Materiality</b></p> <p>The purpose of our audit is to provide assurance that the financial statements and service performance information of Council are free from material error. We have used \$1.5m in assessing any potential misstatement to the financial statements as a whole.</p> <p><b>Audit differences</b></p> <p>There are no adjusted or unadjusted audit differences impacting the financial statements arising from our audit.</p>
		<p><b>Written representations</b></p> <p>We have requested a letter of representation. A copy of this letter is included in Appendix D.</p>

# Areas of audit focus

Area of focus	Background	EY perspective															
<p><b>Infrastructure assets</b></p> <p>Key areas:</p> <ul style="list-style-type: none"> <li>The valuation of infrastructure assets is judgemental</li> <li>Appropriateness of depreciation and remaining useful lives of assets</li> </ul> <p>Relevant accounting standards:</p> <ul style="list-style-type: none"> <li>PBE IPSAS 17 Property, Plant and Equipment</li> </ul>	<p>Carrying value of infrastructure assets at balance date is \$1,046 million (2016: \$1,020 million).</p> <p>Infrastructure assets are revalued every 2 to 3 years by qualified and experienced external valuation professionals.</p> <p>The December 2016 valuations have been performed by the following valuers:</p> <ul style="list-style-type: none"> <li>AON Risk Solutions; Operational land and buildings, Land under roads and Park Assets</li> <li>Stantec New Zealand Ltd (Formerly MWH); Roading assets</li> </ul> <p>Other significant components of infrastructure assets:</p> <ul style="list-style-type: none"> <li>As at 30 June 2017, Council had a Work-In-Progress balance of \$16 million (2016: \$14 million) which consisted of approximately 90 different projects.</li> </ul> <p>The value of assets vested to the Council during the course of 2017 amounted to \$4.5 million (2016: \$11.9 million).</p>	<p><b>Valuation reports</b></p> <p>For the current year, the following assets valuation movements were recorded:</p> <table border="1" data-bbox="1305 501 2040 759"> <thead> <tr> <th>Component</th> <th>Carrying amount \$Million</th> <th>Revaluation movement \$Million</th> </tr> </thead> <tbody> <tr> <td>Operational land and buildings</td> <td>188</td> <td>0.6</td> </tr> <tr> <td>Land under roads</td> <td>523</td> <td>18.4</td> </tr> <tr> <td>Park assets</td> <td>16</td> <td>1.5</td> </tr> <tr> <td>Transportation assets</td> <td>201</td> <td>(1.5)</td> </tr> </tbody> </table> <p>In our view the key inputs to the valuation reports were reasonable and were relevant to Council's circumstances. The valuation results have been appropriately recognised in the financial statements. The valuations were conducted in line with the appropriate accounting standard – namely PBE IPSAS 17 and the valuers are suitably qualified and independent of the Council.</p> <p><b>Capital additions and depreciation</b></p> <p>Our sample testing of capitalised additions confirmed the items were consistent with the capitalisation criteria under PBE IPSAS 17.</p> <p>We considered the integrity of the depreciation charged on the various classes of infrastructure assets, with particular attention being placed on the assets that were revalued during the year. The depreciation rates have been appropriately reflected in the fixed assets register following the valuation.</p> <p><b>Work-in-Progress</b></p> <p>The Work-In-Progress balances represented items of capital nature. Council advised that the projects outstanding at balance date have not exceeded budgets or been unnecessarily delayed. Our sample testing of WIP balances confirmed this. We noted completed projects were capitalised in the fixed assets register and were subject to depreciation from the applicable commissioned date.</p>	Component	Carrying amount \$Million	Revaluation movement \$Million	Operational land and buildings	188	0.6	Land under roads	523	18.4	Park assets	16	1.5	Transportation assets	201	(1.5)
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Area of focus	Background	EY perspective
<p>Rates Income</p> <p>Key areas:</p> <ul style="list-style-type: none"> <li>Compliance with the Local Government Rating Act</li> <li>Consistency between rates resolution, Funding Impact Statement and Revenue and Financing policy in the LTP</li> <li>Effectiveness of controls over the invoicing process</li> </ul> <p>Relevant accounting standards:</p> <ul style="list-style-type: none"> <li>PBE IPSAS 23 Revenue from Non-Exchange Transactions</li> </ul>	<p>The rates income is the primary source of funding for Council. In the local authority context, failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue. This is an area of renewed focus for local Government over the past few years.</p> <p>The requirement for there to be consistency between the rates resolution, the Funding Impact Statement for that year, and the Revenue and Financing Policy in the LTP is fundamental because this is the thread that links community consultation to the rates levied by Council forming the core of the City's revenue.</p>	<p>Vested assets</p> <p>In FY17, PCC received approximately \$2.1m of vested assets relating to Water (e.g. waste and storm water mains). Council recognised these assets at book values that were provided by Wellington Water and will be subject to revaluation during the next revaluation cycle. The vested assets were appropriately recorded in the fixed assets register and financial statements.</p> <p>Rates Strike and invoicing</p> <p>Council recognised \$56.6 million in rates revenue for FY17 (FY16: \$55.96 million). We have reviewed the Council's rate strike for the year and the application of those rates to the rating database. We have also undertaken a review of the billing to specific ratepayers and subsequent collection on a sample basis.</p> <p>We assessed the appropriateness of the rates strike for 2016/17 and 2017/18 and considered the key elements of the legislative framework associated with the Rating Act and Local Government Act.</p> <p>We are satisfied that the rates revenue sought from Uniform Annual General Charge (UAGC) and targeted rates (set on a uniform basis) did not exceed 30% of the total rates revenue sought by Council for the year.</p> <p>Rates debtors</p> <p>Council had \$0.48 million of rates receivable at 30 June 2017 (2016: \$0.56 million). Council has not provided for any overdue rates receivables based on provisions of the Local Government (Rating) Act 2002 which gives Local Authorities the right to extract rates from a person's estate or the right to lease or sell the property in order to collect the rates.</p>
<p>Recognition of NZTA Claims and Subsidies</p> <p>Relevant accounting standards:</p> <ul style="list-style-type: none"> <li>PBE IPSAS 23 Revenue from Non-Exchange Transactions</li> </ul>	<p>Transport projects and maintenance undertaken by the Council are eligible to receive funding from New Zealand Transport Agency ("NZTA"). The subsidies provided are for 48% (maintenance) or 54% (major new capital) of the project cost depending on the type. The funding must be applied for and granted prior to the project or programmed years' work being undertaken.</p>	<p>EY perspective</p> <p>Council received \$4.9 million in NZTA subsidies in FY17 (FY16: \$4.3 million). Total subsidies included an amount of \$1.6m in respect of the Link Roads / Transmission Gully project.</p> <p>Council recognised revenue in accordance with the funding levels approved by NZTA and planned transport expenditure stated in the 2016/17 Annual Plan. The claims during the year were supported by invoices and for a sample of these we verified that PCC had received the funds from NZTA.</p>

Area of focus	Background	EY perspective
<p>Valuation of Investment Properties and Properties held for sale</p> <p>Key areas:</p> <ul style="list-style-type: none"> <li>Fair value judgements</li> <li>Held for sale criteria test</li> </ul> <p>Relevant accounting standards:</p> <ul style="list-style-type: none"> <li>PBE IPSAS 16 Investment property</li> <li>PBE IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</li> </ul>	<p>Investment properties are carried at fair value in accordance with PBE IPSAS 16 and re-valued on an annual basis by an external qualified valuer.</p> <p>Council continues to consider a number of its properties that are surplus to requirements and recognised \$0.29 million (2016: \$1.1 million) worth of properties held for sale at 30 June 2017.</p>	<p>Investment properties</p> <p>As at 30 June 2017, Council recognised investment properties with a value of \$16.1 million (2016: \$16.7 million). During FY17, investment properties have been revalued by Aon Risk Solutions for financial reporting purposes. We have considered the key inputs to the valuations and consider they were appropriate and consistent with the properties' future rental potential. We are satisfied that the investment properties are appropriately recorded and disclosed in the financial statements.</p> <p>Properties held for sale</p> <p>During the year, Council finalised the sale of two properties and signed unconditional contracts for a combined sales price of \$1.37 million. A gain on sale of \$0.5 million was recognised in the statement of comprehensive income. For the properties sold during the year (7 &amp; 9 Prosser Street), we noted the gains/losses are appropriately recorded in the statement of comprehensive income. Based on our procedures we are satisfied that the assets classified as held for sale have been properly recorded and disclosed in the financial statements.</p>

Area of focus	Background	EY perspective
<p>Provisions and liabilities</p> <p>Key areas:</p> <ul style="list-style-type: none"> <li>Completeness of the provision</li> <li>Calculation of landfill aftercare involves future estimates</li> </ul> <p>Relevant accounting standards:</p> <ul style="list-style-type: none"> <li>PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets</li> </ul>	<p>Landfill aftercare provision</p> <p>Council records a provision in relation to the aftercare of the Spicer Valley Landfill in line with PBE IPSAS 19. The provision for closure costs is determined by calculating the present value of the estimated future cash flows relating to closing the landfill and the necessary aftercare costs.</p> <p>During the year, management has reassessed the estimated useful life of the landfill during the year, in light of the resource consent that is available to operate the landfill until 2030. As a result of this assessment, the landfill is expected to operate until the year 2030 compared to the previous expected closure date of 2022.</p>	<p>Landfill aftercare provision</p> <p>In determining the present value of the future cash flows, management has used a discount rate of 2.97% (2016: 2.34%). This rate reflects the 10-year government bond interest rate. The change in the discount rate and expected closure date has an impact of generating a \$0.76m decrease to the provision which is also applied against the corresponding usage asset. The Council's calculation for the provision is based on 3% inflation (2016: 3%) of annual costs from 2030 to 2060.</p> <p>The provision is a fair reflection of the Council's future liability based on the current estimate of the closure date and costs. We considered the assumptions underlying the provision and are satisfied they appear reasonable. We acknowledge there is subjectivity and professional judgement involved in determining the appropriate discount rate and inflation rate when calculating the provision. The provision value is highly sensitive to fluctuations of these inputs. We are satisfied that appropriate disclosures have been made in the financial statement to draw attention to the sensitivity of the provision's value to fluctuations in discount rate and inflation assumptions.</p>

Provision for leaky homes

PCC has had a number of claims lodged against it with respect of leaky homes in the region. However, the number of outstanding claims has significantly reduced. The treatment of these claims should continue to be in line with PBE IPSAS 19.

Provision for claim associated with weathertightness

Council is aware of 3 claims that exist as at 30 June 2017 and has created a provision for future associated costs of \$3.5 million. Council has recognised the provision based on its assessment of likely future costs. The quantification of the future costs for these claims is highly subjective and based on management's best estimate of future outcomes. The quantum has been informed by the size of the current claims and recent amounts paid in weathertightness situations by other local authorities. The provision recognised by Council appears reasonable based on recent settlements on these matters.

Area of focus	Background	EY perspective
<p>Employee Entitlements</p> <p>Relevant accounting standards:</p> <ul style="list-style-type: none"> <li>PBE IPSAS 25: Employee Benefits</li> </ul>	<p>Employee entitlements could be misstated or incorrect entitlements paid. Local authorities are required to disclose information about severance payments in the annual report.</p>	<p>Our control testing concluded that the payroll processes and controls utilised by management were operating effectively during FY17. The employee entitlements recognised by Council at year end were in accordance with the contractual entitlements.</p> <p>Through the examination of significant one-off payments to employees we have reviewed severance payments made throughout the year along with the disclosure of these payments. Council paid \$7,992 (2016: \$55,921) for severance payments during the year.</p> <p>Council's review of its compliance with the Holiday's Act has in its assessment resulted in an immaterial amount being due to the employees affected.</p>

Area of focus	Background	EY perspective
<p>Debt facilities and derivatives</p> <p>Relevant accounting standards:</p> <ul style="list-style-type: none"> <li>PBE IPSAS 28 Financial Instruments: Presentation</li> <li>PBE IPSAS 29 Financial Instruments: Recognition and Measurement</li> <li>PBE IPSAS 30 Financial Instruments: Disclosures</li> </ul>	<p>PCC recognised the public debt of \$52 million at 30 June 2017. The amount of debt has not changed significantly from the prior year (2016: \$53 million).</p> <p>Council maintains a register of interest rate swaps to manage its exposure to interest rate fluctuations.</p>	<p>There has been no movement in overall borrowings for the year. However borrowings that have matured have been renewed. PCC's primary borrowings are with the Local Government Funding Agency ("LGFA"), as PCC has sought to reduce its reliance on banks.</p> <p>The mark to market value of interest rate swaps amounted to a liability of \$3.8 million and an asset of \$0.24 million (2016: liability of \$6.3 million) at 30 June 2017. Fair value changes have been recorded in the Statement of Comprehensive Revenue and Expenses.</p>

Area of focus	Background	EY perspective
<p>Non-financial performance information reporting</p> <p>Key areas:</p> <ul style="list-style-type: none"> <li>• Risk of inadequacy of reporting systems to monitor performance.</li> <li>• Potential failure to adequately report the provision of core utility services to the public</li> </ul>	<p>Council report their service performance reporting against the performance objectives established by the 2015-2025 Long Term Plan. Our audit opinion on the service performance report covers compliance with generally accepted accounting practice, and whether or not the service performance report fairly reflects Council's actual service performance for the period.</p>	<p>For service performing reporting purposes, Council has divided its operations into 11 service groups. Each of these groups report against performance measures that show how Council is performing against the targets set in the annual plan. During FY17, Council achieved its targets for 76 of the 101 measures. The reported measures also included the mandatory DIA Local Government non-financial performance measures.</p> <p>Flooding events and storms during the year have impacted the performance of the three water services and has been an influencing factor in the lower than expected level of community satisfaction. During the year Council did not meet targets for resource and building consent applications. In our view, Council appropriately described the reasons for not meeting these targets in the statement of service performance.</p> <p>There are minor improvement opportunities for Council in the way the data is maintained and reported for some measures. For example, a spreadsheet to record the statutory days elapsed to process resource consent applications included several clerical input errors due the reliance on manual data entry.</p> <p>We have assessed the completeness and effectiveness of the performance framework utilised and conclude that the service performance measures have been appropriately stated and are free from material misstatement.</p>

# Areas of audit focus

## Specific OAG Requirements

All specific OAG requirements in respect of the year ended 30 June 2017 have largely been completed. The results of our findings in each area have been discussed with management who has responsibility for the particular area involved. The table below summarises our key findings.

Area of Emphasis	Summary of Procedures and Findings
Remuneration of Council Members	We have reviewed the level of Council member remuneration and that of the Chief Executive against appropriate documentation. We did not identify any matters which indicated concerns in regards to Council member remuneration.
Sensitive Expenditure	<p>Sensitive expenditure is an expenditure by a public entity that provides, has the potential to provide, or has the perceived potential to provide a private benefit to an individual staff member of a public entity that is additional to the business benefit to the entity of the expenditure. It also includes expenditure by a public entity that could be considered unusual for the entity's purpose and/or functions.</p> <p>The appropriateness of Councillor and management expenditure is an area of interest to ratepayers. We have reviewed a sample of areas of sensitive expenditure incurred by Council and expense claims made by Council staff. We have also reviewed the level of Council Members' remuneration and that of the Chief Executive against appropriate documentation. We did not identify any matters which indicated concerns in regards to waste and probity matters. A small number of recommendations have been provided to management for improvements.</p>
Severance Payments	We obtained a list of all severance payments for the year and have selected a sample of severance payments. We investigated the terms of the exit by the employee to determine whether an excessive severance payment was made.
Related Party Transactions	In conjunction with our review of the Council Member Interest Register, we reviewed Council's supplier listing noting that there were no unusual transactions with companies which Council Members have declared interests in. In addition, we have performed a search on the companies register for directorships and shareholdings required to be disclosed by Council Members.
Financial Reporting and Prudence Regulations	We have audited each benchmark and obtained assurance that there is a consistency of reporting against the planned measures and the financial information underlying the financial statements.
Legislative Compliance	<p>The Council operates in a highly legislated area of the economy. It is important from an audit perspective that we are made aware of any instances of non-compliance. We have considered the extent to which the Council maintains systems and procedures to monitor and manage its own legislative compliance.</p> <p>We reviewed both the processes PCC has in place to ensure compliance with relevant legislation, and the actual compliance with or breaches of legislation. The results of PCC's ComplyWith survey for the six month period ended 30 March 2017 showed 99.7% rate of compliance.</p> <p>On a sample basis we have tested whether Council has complied with legislative requirements that directly affect the form, content and preparation of the financial statements, annual report and those that could have a fundamental effect on the entities operations.</p>

# Audit differences

During the audit we identify differences between amounts that should be recognised and disclosed in the financial statements and amounts actually recorded. We identified and aggregated any differences greater than \$76,000 (“reporting threshold”) on our Summary of Audit Differences (“SAD”).

As requested, we report to the Committee adjusted and unadjusted differences recorded on our SAD. Those charged with governance will represent to us in writing that all uncorrected misstatements that they are aware of, have been brought to our attention.

## Summary of adjusted or unadjusted audit differences

No audit differences were noted.

# Assessment of control environment

## Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

## IT environment

During the year we reconsidered our observations raised in prior years in relation to the Information Technology General Controls (ITGC) significant to financial reporting.

As part of our audit we performed a review of the IT environment relating to the Finance One system. Areas of focus for the system included:

- Change management
- Access to programs and data
- Program development; and
- System security configuration

Our testing has been concluded and we were able to place reliance on the IT general controls as they relate to Finance 1. This reflects the improvements to the formality with which IT general controls are operating at Council since 2016. Observations of the IT environment have been given a low rating, meaning corrective action is required, generally within 6-12 months.

## Report to Management

We provided a detailed Report to Management of our Internal Control Findings, including management comments, due date and person responsible for resolution for matters arose as a result of our interim audit work. A summary of these matters were reported to the committee in our interim update paper dated 8 June 2017. We have not identified internal control matters of a 'critical' or 'high' risk nature and consequently we have no matters to report to the Committee in relation to significant deficiencies in internal control.

Observations we raised last year have been addressed by management during the course of the year. The following low risk matters have been carried forward from prior year and a report is being finalised for distribution to management:

- Use of spreadsheets to maintain data of the service performance measure relating to consent applications being processed in a timely manner.
- Segregation of duties matter as developers have access to both the development and production environment.
- Privileged user access reviews.

# Appendix A – Other required audit committee communications

Auditing Standards require us to report to you certain matters that are not otherwise detailed in this report.

Matter	How matter was addressed
Material uncertainties and going concern	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Porirua City Council's ability to continue as a going concern for 12 months from the date of our report.
Disagreements with management	During our audit we received full cooperation from management and had no unresolved disagreements over the application of accounting principles, the scope of our audit or disclosures included in the financial statements and service performance information.
Compliance with laws and regulations	We have not identified any material instances of non-compliance with laws and regulations.
Fraud and illegal acts	<p>We have made enquires of management regarding:</p> <ul style="list-style-type: none"> <li>• Knowledge of any fraud or suspected fraud affecting PCC involving management or employees who have significant roles in internal control; or others where fraud could have a material effect on the financial statements and service performance information; and</li> <li>• Knowledge of any allegations of fraud, or suspected fraud, affecting Council's financial statements and service performance information.</li> </ul> <p>We did not become aware of any fraud or illegal acts during our audit.</p>
Expected modifications to audit report	<p>We anticipate issuing an unmodified audit report on the financial statements and service performance information for the year ended 30 June 2017 subject to the satisfactory resolution of the outstanding matters detailed in this report.</p> <p>A draft copy of our audit report has been included at Appendix C.</p>
Review of Council Minutes	We have completed a review of the minutes of Council meetings held during the year. Based on that review we have not identified any financial or non-financial matters that would result in a significant effect on the period results that have not been reflected in the financial statements and service performance information.
Independence	<p>In relation to our audit of Porirua City Council for the year ended 30 June 2017, to the best of my knowledge and belief, there have been no contraventions of the OAG's auditor independence requirements or any applicable code of professional conduct. We are satisfied that the services provided by EY during the year ended 30 June 2017 do not impact our independence.</p> <p>During the year the only non-audit services that we have performed relates to independent assurance over the Debenture Trust Deed reporting (FY 17 Fees \$4.5k). This is a permitted service and does not create an audit independence risk.</p> <p>We are not aware of any other relationships between the Firm or other firms that are members of the global network of EY firms and Porirua City Council that, in our professional judgement, may reasonably be thought to bear on independence.</p> <p>We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and the Council consider the facts of which you are aware and come to a view. Should you have any specific matters that you wish to discuss, please contact us.</p>

# Appendix B – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Annual Report	An end to end review of the Annual Report for compliance with the Local Government Act 2002 (including schedule 10 disclosures), the Local Government Financial Reporting and Prudence Regulations 2014, and the NZ PBE IPSAS. We will also review to ensure the flow through of audit adjustments already communicated to management	EY (upon receipt of final Annual Report)
Management Representation Letter	Receipt of a signed representation letter	Management
Summary Annual Report	Review of Summary Annual Report	Management
Subsequent events review	Review any interim management reporting and inquiries of PCC management	EY

We will update the Committee on the resolution of these matters at the Committee meeting.

# Appendix C – Draft Audit report

## INDEPENDENT AUDITOR'S REPORT

### TO THE READERS OF PORIRUA CITY COUNCIL'S ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Porirua City Council (the City Council). The Auditor-General has appointed me, Grant Taylor, using the staff and resources of Ernst & Young, to report on the information in the Council's annual report that we are required to audit under the Local Government Act 2002 (the Act). We refer to this information as "the audited information" in our report.

We are also required to report on:

- whether the Council has complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of the Council's disclosures about its performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

We refer to this information as "the disclosure requirements" in our report.

We completed our work on TBC September 2017. This is the date on which we give our report.

#### Opinion on the audited information

In our opinion:

- the financial statements on pages [...] to [...] and pages [...] to [...]:
  - present fairly, in all material respects:
    - the Council's financial position as at 30 June 2017;
    - the results of its operations and cash flows for the year ended on that date;
- and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards;

- the funding impact statement on page [...], presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Council's annual plan;
- the description used for the statement of service provision on pages [...] to [...];
- presents fairly, in all material respects, the Council's levels of service for each group of activities for the year ended 30 June 2017, including:
  - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved;
  - the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
- complies with generally accepted accounting practice in New Zealand; and
- the statement about capital expenditure for each group of activities on pages [...] to [...], presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the Council's annual plan; and
- the funding impact statement for each group of activities on pages [...] to [...], presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Council's Long-term plan.

#### Report on the disclosure requirements

We report that the Council has:

- complied with the requirements of Schedule 10 of the Act that apply to the annual report. These disclosures accurately reflect information drawn from the Council's audited information, long-term plan or annual plan; and
- made the disclosures required by the Local Government (Financial Reporting and Prudence Regulations 2014) about its performance against benchmarks on pages [...] to [...]. These disclosures are complete and accurately reflect the information drawn from the Council's audited information.

### Basis for opinion on the audited information

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. We describe our responsibilities under those standards further in the "Responsibilities of the auditor for the audited information" section of this report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the audited information.

### Responsibilities of the Council for the audited information

The Council is responsible for meeting all legal requirements that apply to its annual report.

The Council's responsibilities arise under the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare the information we audit that is free from material misstatement, whether due to fraud or error.

In preparing the information we audit the Council is responsible for assessing its ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to amalgamate or cease all of the functions of the Council or there is no realistic alternative but to do so.

### Responsibilities of the auditor for the audited information

Our objectives are to obtain reasonable assurance about whether the audited information, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of this audited information.

For the budget information reported in the audited information, our procedures were limited to checking that the budget information agreed to the Council's annual plan.

We did not evaluate the security and controls over the electronic publication of the audited information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the audited information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- We determine the appropriateness of the reported intended levels of service in the description used for the statement of service provision, as a reasonable basis for assessing the levels of service achieved and reported by the Council.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the audited information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the audited information, including the disclosures, and whether the audited information represents, where applicable, the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Other Information

The Council is responsible for the other information included in the annual report. The other information comprises the information included on pages [...] to [...] and [...] to [...], but does not include the audited information and the disclosure requirements.

Our opinion on the audited information and our report on the disclosure requirements do not cover the other information.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the audited information and the disclosure requirements, or our knowledge obtained during our work, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independence

We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to our audit and our report on the disclosure requirements, we have carried out engagements in the areas of debenture trust reporting, which are compatible with those independence requirements. Other than these engagements we have no relationship with or interests in the Council.

Grant Taylor  
Ernst & Young  
On behalf of the Auditor-General  
Wellington, New Zealand

# Appendix D – Draft Representation Letter

[Date]

Grant Taylor  
Partner  
Ernst & Young  
PO Box 490  
Wellington 6140

Dear Grant

## REPRESENTATION LETTER FOR THE YEAR ENDED 30 JUNE 2017

This representation letter is provided in connection with your audit, carried out on behalf of the Auditor-General, of the financial statements and statement of performance of Porirua City Council for the year ended 30 June 2017 for the purpose of expressing an independent opinion about whether:

The financial statements:

- present fairly, in all material respects:
  - the financial position as at 30 June 2017; and
  - the financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

The statement of performance:

- presents fairly, in all material respects, the performance for the year ended 30 June 2017, including:
  - the performance achievements as compared with forecasts included in the annual plan for the financial year; and
  - the actual revenue and expenses as compared with the forecasts included in the annual plan for the financial year.
- complies with generally accepted accounting practice in New Zealand.

We understand that your audit was carried out in accordance with the Auditing Standards issued by the Auditor-General, which incorporate the International Standards on Auditing (New Zealand).

General representations

To the best of our knowledge and belief:

- the resources, activities under our control have been operating effectively and efficiently;
- we have complied with our statutory obligations including laws, regulations, and contractual requirements;
- we have carried out our decisions and actions with due regard to minimising waste;
- we have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector (that is, we have carried out our decisions and actions with due regard to probity); and
- any decisions or actions have been taken with due regard to financial prudence.

We also acknowledge that we have responsibility for designing, implementing, and maintaining internal control (to the extent that is reasonably practical given the size of Porirua City Council to prevent and detect fraud.

Representations on the financial statements and the statement of performance

We confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements and statement of performance, and that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

- we have fulfilled our responsibilities for preparing and presenting the financial statements and the statement of performance as required by the Local Government Act 2002 and the Local Government (Financial Reporting) Regulations 2011 and, in particular, that:

The financial statements:

- present fairly, in all material respects:
  - the financial position as at 30 June 2017; and

- the financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.

The statement of performance:

- presents fairly, in all material respects, the performance for the year ended 30 June 2017, including:
  - the performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and
  - the actual revenue and expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
- complies with generally accepted accounting practice in New Zealand.
- we believe the significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable;
- we have appropriately accounted for and disclosed the related party relationships and transactions in the financial statements;
- we have adjusted or disclosed all events subsequent to the date of the financial statements and the statement of performance that require adjustment or disclosure; and
- we believe the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements and statement of performance as a whole. A list of the uncorrected misstatements is attached to this representation letter.
- we have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. Where applicable, such litigation and claims have been accounted for and disclosed in accordance with Public Benefit Entity Reporting Standards.

Representations about the provision of information

We confirm that, to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves:

- we have provided you with:
  - all information, such as records and documentation, and other matters that are relevant to preparing and presenting the financial statements and the statement of performance; and
  - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- we have disclosed to you the results of our assessment of the risk that the financial statements and statement of performance may be materially misstated as a result of fraud;
- we have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements and the statement of performance.
- we have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements and statement of performance communicated by employees, former employees, analysts, regulators, or others;
- we have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements and the statement of performance including possible non-compliance with laws for setting rates;
- we have provided you with all the other documents ("other information") which will accompany the financial statements and the performance information which are consistent with one another, and the other information does not contain any material misstatements.
- we have disclosed the identity of the related parties, all of their relationships, and all of their transactions of which we are aware; and
- we have complied with the requirements of Schedule 10 of the Act that apply to the annual report and the completeness and accuracy of the Council's disclosures about

its performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

#### Going concern

We confirm that, to the best of our knowledge and belief, Porirua City Council has adequate resources to continue operations for the foreseeable future. For this reason, the Department continues to adopt the going concern assumption in preparing the financial statements and the performance information for the year ended 30 June 2017. We have reached this conclusion after making enquiries and having regard to circumstances that we consider likely to affect Porirua City Council during the period of one year from date of signing the financial statements and the performance information, and to circumstances that we know will occur after that date which could affect the validity of the going concern assumption.

We consider that the financial statements and the performance information adequately disclose the circumstances, and any uncertainties, surrounding the adoption of the going concern assumption by Porirua City Council.

Throughout the year, Porirua City Council has conformed with the requirements of its banking arrangements, debenture trust deeds, or negative pledge agreements, including those relating to its net tangible assets ratios.

The representations in this letter are made at your request, and to supplement information obtained by you from the records of Porirua City Council and to confirm information given to you orally

Yours faithfully

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Mayor

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Chief Executive

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